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## INTELLIGENCE BRIEF

### THE NEW STATUTE ON THE SOVIET INDUSTRIAL ENTERPRISE

DIRECTORATE OF INTELLIGENCE

Office of Research and Reports

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THE NEW STATUTE  
ON THE SOVIET INDUSTRIAL ENTERPRISE\*

The USSR, in a long-awaited overhaul of laws governing the legal status, rights, and obligations of Soviet industrial enterprises, released a new statute on 20 October 1965. It reduces the detailed regulation of enterprises but fails to change significantly the centralized system of output and delivery assignments. The new statute, which comprises only part of Premier Kosygin's program of economic reform, (1) provides for all enterprises producing consumer goods to base their output plans on direct contracts with the trade network, (2) exhorts all other enterprises to extend their use of direct contracts, and (3) allows all enterprises to make many decisions on the details of internal operation that formerly were made for them by their superior agencies. The new statute provides no details on the "economic levers" -- profits, bonuses, and interest charges -- outlined by Premier Kosygin in his speech to the September Plenum of the Party Central Committee.

The new statute must be judged in combination with the other parts of Kosygin's program. The general intent of the program is to provide -- through the new economic levers -- positive motivation of enterprise managers to promote efficiency. The new statute is the permissive aspect of the program, giving enterprises greater freedom of action. The narrow limits on this freedom continued by the statute plus the restrictions imposed by existing policies on prices, wages, and employment, however, suggest that the gain in efficiency will be small at best. But tautness of planning and bureaucratic interference in the affairs of enterprises may obviate any potential gain. Final evaluation is premature at this time since the reforms are clearly tentative and provisional. Furthermore, transition to the new system will be prolonged, and substantial changes may be made in the statute as well as in other aspects during the implementation period.

1. Background

Proposals to overhaul existing regulations in order to increase the rights of industrial enterprises have circulated in Moscow for years. Khrushchev, in a speech to the November 1962 Plenum of the Central Committee, set up a special commission to work out a new statute that

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\* The estimates and conclusions in this brief represent the best judgment of this Office as of 29 November 1965.

would accomplish this objective. Little has been made public of the activities of this commission, but it was reported last spring that the statute had gone through several drafts. In his speech to the September 1965 Plenum, Premier Kosygin revealed that immediately prior to the Plenum the Council of Ministers had finally approved the statute as a major element of the program of economic reform. The statute was not made public until 20 October, however, and it covers only part of Kosygin's program of economic reform. The incentive aspects of the program -- the "economic levers" (profits, bonuses, and interest charges) -- have yet to be implemented by decrees.

2. Main Features of the Statute

The main changes in economic management provided by the new statute are provisions for (1) direct contracting with the trade network by all enterprises producing consumer goods, and (2) an increase in the freedom of all enterprises, within narrow limits, to make many decisions on internal operation that formerly were the subject of a multitude of detailed and often arbitrary and conflicting regulations by superior agencies. These decisions include determination of the enterprise's detailed technical-industrial-financial plan (tekhpromfinplan), the selection of pay and bonus systems for workers and for managerial employees in subdivisions of the enterprise, and the determination of the administrative structure and staffing of the enterprise. Apart from the provisions governing enterprises producing consumer goods, the statute makes no significant changes in the basic features of the command economy -- that is, the methods of assigning output and delivery targets and the system of allocating and supplying materials and equipment.

The increase in internal operating powers of enterprises is aimed at freeing them to respond more readily to the pressures of the new economic levers and also at increasing the efficiency with which they carry out their output assignments. The workability of these provisions and the amount of benefit they will contribute to economic performance as a whole will depend on how effectively the new economic levers -- the details of which are yet to be made public -- succeed in equating what is good for the enterprise with what is good for the economy.

A. Direct Contracts

The new statute provides that all consumer goods enterprises are to base their output plans on direct contracts with the

trade network but does not give a schedule for implementation. No details are given on how closely the system will conform to recent experiments. A system in which output plans are based solely on orders from the trade network was tested in some 400 light industry enterprises during the last half of 1965. The objective of such a system is to obtain a better adjustment of supply to quantities and qualities of products demanded by customers than could be made through central assignments. The new statute exhorts heavy industry enterprises to make increased use of direct contracts with their customers but minimizes their potential benefits by providing that such contracts are to supplement rather than replace central production and delivery assignments.

B. Details of Enterprise Plans

The new statute provides that enterprises are to work out proposals for their annual plans on the basis of centrally assigned output targets and a limited number of plan indicators, such as the volume of output of the most important products, total sales, requirements for the supply of principal materials and equipment, profit, and the wage fund. After these proposals have been confirmed by the enterprise's superior agency, the enterprise will work out its own detailed tekhpromfinplan. This plan is not subject to review, and the enterprise is therefore not legally committed to it. Thus the enterprise is freed from commitments to a multitude of assignments governing details, such as the output of its individual subdivisions, costs of specific products, and the productivity of specific units of equipment. In the past the difficulty of changing these commitments during a plan period -- because of their large numbers and the need for prior approval by the enterprise's superior agency -- severely hampered the enterprise's ability to adjust to unforeseen circumstances or to take advantage of cost-saving opportunities that might develop. The provision of the statute requiring confirmation of major elements in the enterprise's plan, however, retains a sharp limitation on the enterprise's freedom of maneuver.

C. Pay and Bonus Systems

The new statute grants enterprises the power to select the type of pay system -- time or piece rates -- for the various categories of their mutual workers and the bonus criteria to be applied both to workers and to managerial, engineering-technical, and

office employees in their subdivisions. These powers are limited to choosing among a number of standard pay and bonus systems worked out by the State Committee for Labor and Wages. The statute does not cover the new bonus provisions discussed by Kosygin for enterprise directors and managerial employees in the central administrative apparatus of the enterprise.

D. Employment

The impact of the reform program on employment has been the subject of a recent controversy in the Soviet press. The principal question involved in this controversy is whether or not enterprises will be free to dismiss unneeded workers in large numbers. The new statute, although granting enterprises greater freedom to determine employment, retains severe restrictions on the right to dismiss unneeded workers, and thus should prevent widespread dismissals.

E. Other Internal Operating Decisions

The statute also grants enterprises powers to make numerous other decisions affecting the efficiency of internal operations. Narrow limits are placed on most of these decisions, either directly in the statute or by reference to separate legislation. Enterprises are empowered to choose their own administrative structures and staffing requirements from among a number of alternative standard tables of organization worked out by superior authorities. Enterprises also are granted greater freedom to determine how they wish to apportion their total expenditures on administration -- such as expenditures on wages for managerial and office employees, the purchase of office supplies, and travel expenses -- within centrally established limits on both total administrative expenditures and wages paid.

To provide greater incentive to economize on capital, the statute permits enterprises broader latitude in selling or leasing unneeded plant and equipment and in writing off obsolete or wornout equipment, facilities, and inventories that cannot be repaired or sold. Enterprises also are given the right to determine the composition of their working capital within overall amounts established by superior authority and subject to limitations provided by centrally established norms on most individual elements of working capital, such as inventories of specific materials.

The statute also grants enterprises the right to set prices and to determine technical standards for some products without review

by superior authority. This provision appears to apply only to products produced in small quantities for individual customers. Centrally established prices and technical standards are available for most products produced in substantial quantities, and, although enterprises are permitted to set provisional prices on new products, most of these prices are subject to review by superior authorities.

### 3. Promised Changes in Planning Procedures

The new statute calls for the following new planning procedures aimed at improving the continuity and stability of planning: (1) precise, centrally assigned output targets covering a period of years are to be given to each enterprise to enable it to work out long-range plans that take account of the future effects of current expansion and modernization programs, (2) changes in assignments to enterprises during a given period are to be made only in "exceptional" circumstances, and (3) adequate resources are "guaranteed" to be made available to enterprises to fulfill their plan assignments. These provisions are aimed at meeting major complaints of enterprises voiced during the economic controversies of recent years. These procedures have been called for repeatedly in the past without much effect, however, and amount to little more than pious hopes. As long as the present tautness of planning is maintained, shortfalls in some sectors of the economy will require readjustments in assignments during the plan period, and the process of making such readjustments will provide temptations for Party and bureaucratic interference. Moreover, the need to make resources available for the attainment of priority objectives will insure that lower priority sectors -- such as consumer goods -- will continue to be shortchanged.

#### Sources:

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p. CC 28 - CC 30. OFF USE.

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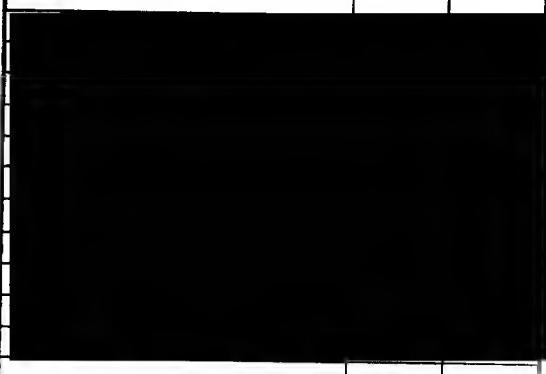
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